

HART SCHAFFNER & MARX



Thirty-third Annual Report
November 30, 1943

HART SCHAFFNER & MARX

CHICAGO

NEW YORK

January 19, 1944

To the Stockholders of
Hart Schaffner & Marx

The annual report of your Company submitted herewith is for the first time presented on a consolidated basis, the operations of the parent company being combined with those of its subsidiaries. The retail store subsidiaries have hitherto been carried on the Balance Sheet as investments, and profits or losses of these companies have been taken into account by adjusting the reserve against these investments. Because the subsidiaries have assumed greater importance both as to total assets and earnings your directors have come to the conclusion that a consolidated statement would more accurately reflect the combined operating results and financial condition.

After all provisions for taxes and after appropriating out of earnings \$200,000 to be added to the Reserve for Contingencies, the consolidated net profit of the Company and its subsidiaries for the twelve months ending November 30, 1943, amounted to \$1,631,318.93. Had the Company issued a consolidated statement for the previous year the consolidated net profit would have been shown as \$1,437,529.27.

The Balance Sheet reflects a comfortable financial position. All bank indebtedness was paid off early in the year, and there has been no occasion to borrow money in recent months. In addition to satisfactory cash balances the statement shows sufficient Treasury Tax Notes to cover a substantial portion of the liability for federal taxes as at the end of the year.

In a desire to contribute to the war effort in the field in which it is best qualified the Company has continued to manufacture uniforms for various agencies of the Government. With respect to the matter of renegotiation a clearance letter has been received from the Price Adjustment Board of the War Department for the fiscal year which ended November 30, 1942. Your management anticipates similar action in connection with contracts completed during the fiscal year 1943. In any event, your management believes that any adjustment of prices which might be made would have little effect on the Company's net income for the year herein reported and that any possible liability in this connection is fully covered by the Reserve for Contingencies.

The Reserve for Contingencies now stands on the books at \$600,000. Of this amount \$250,000 had been provided in prior years. In the fiscal year just ended there was appropriated out of earnings and applied to the reserve an additional sum of \$200,000. There was also transferred to the reserve at the end of the year \$150,000 previously part of the Reserve against Accounts Receivable, which reserve under present conditions appears to be in excess of requirements.

The attention of the stockholders is directed to a change in the amount of the Company's capital stock held in the treasury. In 1941 your directors authorized the purchase of 5000 shares of the Company's capital stock at a price not to exceed \$25 a share and granted to the president a five-year option to purchase these shares at cost to the Company. The option to purchase these shares was exercised during the fiscal year 1943.

Conditions during the past year have been favorable to the Company. Its future prospects are dependent to a very large degree on the general trend of business. A substantial decline in purchasing power or a major decline in the price level would confront it with serious problems. Barring some drastic change in economic conditions however, the immediate prospects appear to be good. Our customers have shown a steadily increasing interest in our products. Spring bookings are on a basis which will absorb the full capacity of our manufacturing facilities for the first half of the current fiscal year. The Company faces no major problems of reconversion at the end of the War and is in a position to benefit from such demand for clothing as may be anticipated when the members of our Armed Forces are demobilized and return to civil life.

Respectfully submitted,
MEYER KESTNBAUM
President

HART SCHAFF
A New York
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

Assets

Current Assets:

Cash in banks and on hand		\$ 3,232,371.67
United States Treasury tax notes—at cost		777,000.00
Other United States Government securities—at cost		55,000.00
Trade notes and accounts receivable—		
Notes	\$ 232,812.44	
Accounts	2,993,781.03	
	<u>\$3,226,593.47</u>	
LESS—Reserves for doubtful notes and accounts and discounts	<u>567,915.20</u>	2,658,678.27
Other notes and accounts receivable (including \$44,591.74 due from employees)		118,517.57
Inventories—		
Factory inventories at cost or market whichever is lower for current season's goods and estimated realizable values for past seasons' goods; inventories of retail stores at cost or market whichever is lower computed by the retail method (less estimated intercompany profit)		<u>8,099,984.65</u>
Total current assets		<u>\$14,941,552.16</u>

Other Assets:

Cash surrender value of insurance policies on lives of officers of certain subsidiaries	\$ 28,536.46	
Sundry investments (at cost) and loans, less reserve of \$47,781.16	85,165.94	
Post-war credit of excess profits tax	32,000.00	
Lease deposits	<u>25,000.00</u>	170,702.40

Properties—at cost, less reserves for depreciation
and amortization:

Leaseholds—less amortization	\$ 10,118.52	
Leasehold improvements—less amortization	313,334.96	
Shop equipment, furniture and fixtures \$3,235,855.36		
LESS—Reserve for depreciation <u>2,495,886.32</u>	<u>739,969.04</u>	1,063,422.52

Deferred Charges:

Prepaid rentals, insurance, supplies, etc.		236,682.28
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Goodwill, Trade Names and Trade-Marks,
at record value

	<u>1.00</u>
	<u><u>\$16,412,360.36</u></u>

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SHEET—NOVEMBER 30, 1943

Liabilities

Current Liabilities:

Trade accounts payable		\$ 1,031,727.38
Other accounts payable (including employees' deposits of \$57,128.84 on United States War Savings Bonds)		232,536.28
Dividend payable—December 10, 1943		355,782.50
Accrued liabilities—		
Salaries, wages and rents	\$ 438,570.02	
Taxes, other than taxes on income (less escrow deposits of \$38,498.35)	224,918.47	
Federal and State taxes on income	<u>1,709,991.19</u>	<u>2,373,479.68</u>
Total current liabilities		\$ 3,993,525.84

Minority Stockholders' Interest

33,046.31

Reserve for Contingencies:

(See comments in president's letter to stockholders)

Balance November 30, 1942	\$ 250,000.00	
Add—		
Appropriation out of 1943 earnings \$ 200,000.00		
Amount transferred from reserve for doubtful notes and accounts	<u>150,000.00</u>	<u>350,000.00</u>
		600,000.00

Capital Stock and Surplus:

Capital stock—		
Common—authorized and issued— 150,000 shares—par value \$20.00 each		\$ 3,000,000.00
Surplus (per accompanying statement)—		
Capital surplus	\$2,165,231.13	
Earned surplus	<u>6,804,987.98</u>	<u>8,970,219.11</u>
		<u>\$11,970,219.11</u>

DEDUCT—Treasury stock—(See com-
ments in president's letter to
stockholders)

4930 shares at par	\$ 98,600.00	
2757 shares at cost	<u>85,830.90</u>	<u>184,430.90</u>
		<u>11,785,788.21</u>
		<u>\$16,412,360.36</u>

HART SCHAFFNER & MARX

A New York Corporation

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE FISCAL YEAR ENDED NOVEMBER 30, 1943

Profit before provision for Federal and State taxes on income		\$3,593,069.66
Provision for Federal and State taxes on income (after deducting credit realized through debt retirement of certain subsidiaries), less post-war credit of \$22,000.00		<u>1,749,977.69</u>
Net profit for the year		\$1,843,091.97
Deduct:		
Portion of net profit applicable to minority interests	\$ 11,773.04	
Appropriation for contingencies	<u>200,000.00</u>	<u>211,773.04</u>
Balance carried to earned surplus		<u><u>\$1,631,318.93</u></u>

CONSOLIDATED STATEMENT OF CAPITAL AND EARNED SURPLUS

FOR THE FISCAL YEAR ENDED NOVEMBER 30, 1943

CAPITAL SURPLUS

Balance at November 30, 1942—Parent company only, as previously reported	\$1,803,712.61
Add—Excess of book value of net assets of subsidiaries at date of acquisition over cost of investments therein	<u>361,518.52</u>
Balance of consolidated capital surplus at November 30, 1943	<u><u>\$2,165,231.13</u></u>

EARNED SURPLUS

Balance at November 30, 1942—Parent company only, as previously reported.	\$5,550,962.89
Add—Undistributed earnings prior to November 30, 1942 (less intercompany profit in inventories) of subsidiaries now consolidated and not heretofore reflected in the surplus account of the parent company	<u>322,771.16</u>
Balance of consolidated earned surplus at November 30, 1942	\$5,873,734.05
Balance from profit and loss statement for the year ended November 30, 1943	<u>1,631,318.93</u>
	<u>\$7,505,052.98</u>
Dividends paid or declared	<u>700,065.00</u>
Balance of consolidated earned surplus at November 30, 1943	<u><u>\$6,804,987.98</u></u>

REPORT OF ACCOUNTANTS

To the Board of Directors of

Hart Schaffner & Marx

We have examined the consolidated balance sheet of Hart Schaffner & Marx as of November 30, 1943 and the related consolidated statements of profit and loss and surplus for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary. Under a plan of periodic audits, we visited a number of subsidiaries as of July 31, 1943 and these included the principal subsidiaries of the company; in respect of all subsidiaries we were furnished, as of November 30, 1943, with their financial statements supported by details of inventories, receivables and other data, and obtained direct confirmations in respect of bank balances. The books and records of the subsidiaries (unimportant individually) not examined or tested by us have been regularly audited by internal auditors employed by the company, and the financial statements have been subjected to our review. On the basis of such review, supplemented by inquiries we have made, we are of the opinion that the accounting procedures followed by these subsidiaries are in accordance with accepted principles of accounting maintained by the subsidiaries whose records were examined by us. The combined assets, sales and net income of the subsidiaries which we have not examined or tested are not material in relation to the consolidated total assets, sales and net income.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus, when read in conjunction with the comments in the President's report concerning the reserve for contingencies, present fairly the consolidated position of Hart Schaffner & Marx and its subsidiaries as of November 30, 1943 and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

PRICE, WATERHOUSE & CO.

CHICAGO,

January 18, 1944.

